

PUBLIC DISCLOSURE

January 10, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

NORTHERN BANK & TRUST COMPANY

Certificate # 18266

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Division of Banks

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<p>NOTE: This document is an evaluation of the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Federal Deposit Insurance Corporation or the Division of Banks concerning the safety and soundness of this financial institution.</p>

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Massachusetts Division of Banks (Division) and the Federal Deposit Insurance Corporation (FDIC) to use their authority when examining financial institutions subject to their supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agencies must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

*This document is an evaluation of the CRA performance of **Northern Bank & Trust Company (or the Bank)**, prepared by the Division and the FDIC, the institution's supervisory agencies as of **January 10, 2014**. The agencies evaluate performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in the Division's regulation 209 CMR 46.00. The FDIC rates the CRA performance institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345 of the FDIC's Rules and Regulations.*

INSTITUTION'S CRA RATING: This institution is rated “Satisfactory.”

An institution in this group has an adequate record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The assigned rating is based on the results of two performance tests: the Lending Test and the Community Development Test. The Bank’s performance under each of these tests is summarized below:

Lending Test

The institution is rated “**Satisfactory**” under the Lending Test. This rating is supported by the following:

- The loan-to-deposit (LTD) ratio is more than reasonable given the institution’s size and financial condition. The Bank’s average net LTD ratio over the 13 quarters since the prior CRA evaluation was 107.8 percent.
- The Bank made a majority of its loans in the assessment area. From January 1, 2012 through September 30, 2013, 56.1 percent of the total number of small business loans and home mortgage loans were made in the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The Bank made a reasonable percentage of loans within low- and moderate-income (LMI) census tracts.
- The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among businesses of different revenue sizes and individuals of different income levels (including low- and moderate-income).
- The Bank did not receive any CRA-related complaints during the evaluation period. It was noted that the Bank maintains adequate procedures to handle all incoming complaints, including those related to its CRA performance.

Community Development Test

The institution is rated “**Satisfactory**” under the Community Development Test.

- The institution’s community development performance demonstrates adequate responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services, as appropriate, considering the institution’s capacity and the need and availability of such opportunities for community development in the institution’s assessment area.

SCOPE OF EXAMINATION

This evaluation assesses Northern Bank & Trust Company's CRA performance utilizing the interagency intermediate small bank ("ISB") examination procedures, as established by the Federal Financial Institutions Examination Council. These procedures require two performance tests: the Lending Test and the Community Development Test. The Lending Test analyzes an institution's home mortgage, small business, and small farm loans, as applicable, during a certain review period. The Community Development Test is an analysis of community development loans, investments, and services since the previous evaluation.

The Lending Test considered the Bank's small business and home mortgage lending. The Bank's most recent Report of Condition of Income ("Call Report"), dated September 30, 2013, reflected commercial lending, consisting of commercial real estate and commercial and industrial loans, represented 76.2 percent of the loan portfolio. Residential lending, including all loans secured by 1-4 family and multi-family residential properties, represented 14.6 percent of the loan portfolio. While the Bank's loan portfolio is more heavily weighted towards commercial lending, the volume of home mortgage loans the Bank originated during the review period is greater than the volume of commercial loans originated over the same period. Therefore, equal weight is given to the Bank's performance in small business and home mortgage lending. The Bank made no small farm loans during the review period; thus, this product line was not analyzed.

Data reviewed includes small business lending for 2012 and the first three quarters of 2013 (January through September). While the Bank is not required to report small business lending data as an ISB, it opted to do so. The Bank reported 244 small business loans totaling \$54.9 million in 2012 and 203 small business loans totaling \$51.3 million during the first three quarters of 2013. Small business aggregate data was for formal comparison purposes since the Bank voluntarily reports this data. It is noted that other banks included in the aggregate data may be significantly larger than Northern Bank & Trust Company, due to the requirement for banks with assets greater than \$1.202 billion for each of the prior two calendar year ends to report the data. Additionally, assessment area business demographics were used as a comparative tool.

Home mortgage loans were also reviewed during the same period. Data reviewed includes all home mortgage loans reported on the Bank's Home Mortgage Disclosure Act ("HMDA") loan application registers ("LARs"). The LARs contain data about home purchase and home improvement loans, including refinances of 1-4 family and multi-family properties. The Bank reported 489 loans totaling \$168.6 million in 2012 and 348 loans totaling \$113.0 million during the first three quarters of 2013. The Bank's home mortgage lending performance was compared against 2012 aggregate lending data, the most recent year for which aggregate data is available. Aggregate data includes the lending activity of all institutions that reported the origination or purchase of at least a single home loan in the Bank's assessment area in 2012.

While the Lending Test discusses the total dollar amounts of loans, conclusions are primarily based on the Bank's lending performance by the number of loans originated or purchased. The number of loans correlates more closely with the number of individuals or businesses that obtained loans. Larger or smaller dollar loans could skew the data and conclusions.

Demographic information in the *Performance Context* section of the evaluation is based on the 2010 U.S. Census. Financial data was generally obtained from the September 30, 2013 Call Report.

The Community Development Test considered the number and dollar amount of community development loans, qualified investments, and community development services between September 13, 2010 and January 10, 2014.

PERFORMANCE CONTEXT

Description of Institution

Northern Bank & Trust Company is an independently-owned commercial bank and a subsidiary of Northern Bancorp, Incorporated. The Bank's main office is located in a middle-income census tract at 275 Mishawum Road in Woburn, Massachusetts. Additionally, the Bank operates 10 branch offices located in Acton, Billerica, Burlington, Chelmsford, Littleton, Melrose, Westford, and Woburn (3). All branches are full-service, and each is equipped with an Automated Teller Machine (ATM). With the exception of the Burlington and Melrose branches, all other Bank offices offer drive-up services. The Acton and Westford branches are located in upper-income tracts; the Billerica, Burlington, Chelmsford, Littleton, Melrose, North Woburn, and West Woburn are located in middle-income tracts; and the Woburn Center branch is located in a moderate-income tract.

As of September 30, 2013, the Bank's assets totaled \$1.031 billion, and total deposits were approximately \$837.3 million. Total loans as of this date were \$904.9 million, representing 87.8 percent of total assets. Table 1 on the following page illustrates the current distribution of the Bank's loan portfolio.

Table 1 – Loan Portfolio Distribution as of September 30, 2013		
Loan Type	Dollar Amount \$('000s)	Percent of Total Loans (%)
Construction, Land Development, and Other Land Loans	61,660	6.8
Secured by Farmland (Including Farm Residential and Other Improvements)	0	0.0
Revolving, Open-end Loans Secured by 1-4 Family Residential Properties and Extended Under Lines of Credit	18,770	2.1
Closed-end Loans Secured by 1-4 Family Residential Properties: Secured by First Liens	97,080	10.7
Closed-end Loans Secured by 1-4 Family Residential Properties: Secured by Junior Liens	1,667	0.2
Secured by Multi-Family (5 or more) Residential Properties	14,895	1.7
Secured by Nonfarm Nonresidential Properties	416,596	46.0
Commercial and Industrial	272,646	30.1
Loan to Individuals for Household, Family, or Other Personal Expenditures (Consumer Loans)	1,529	0.2
Obligations of states and political subdivision of the U.S.	19,909	2.2
Other Loans	84	0.0
LESS: Unearned Income	(57)	0.0
TOTAL LOANS	904,779	100.0

Source: September 30, 2013 Call Report

Loans secured by nonfarm nonresidential properties make up the largest portion of the Bank's loan portfolio at 46.0 percent. Commercial and industrial loans account for the second largest portion of total loans at 30.1 percent.

The Division and the FDIC as of September 13, 2010, using intermediate small bank examination procedures, conducted the prior CRA evaluation. The evaluation resulted in an overall “Satisfactory” rating by the Division and the FDIC. No financial or legal impediments exist that would limit the Bank’s ability to meet the credit needs of the delineated assessment area.

Description of Assessment Area

The CRA requires the designation of one or more assessment areas within which a financial institution’s record of helping to meet the credit needs of its community will be evaluated. The Bank has one designated assessment area that conforms to CRA requirements.

Geographies

Northern Bank & Trust Company has added 19 cities and towns to the designated assessment area since the previous CRA evaluation. The Bank’s assessment area includes the following municipalities: Acton, Arlington, Bedford, Belmont, Billerica, Burlington, Cambridge, Carlisle, Chelmsford, Concord, Lexington, Lincoln, Littleton, Malden, Maynard, Medford, Melrose, North Reading, Reading, Somerville, Sudbury, Stoneham, Wakefield, Waltham, Watertown, Wayland, Westford, Weston, Wilmington, Winchester, and Woburn. All of these towns and cities are located in Middlesex County and the Cambridge-Newton-Framingham, MA Metropolitan Division (MD) #15764.

The *Geographic Distribution* section of the Lending Test evaluates the distribution of loans by census tract income level, especially in those designated as low- and moderate-income. Each census tract is assigned an income level based on the median family income (MFI) of the tract as compared to the MFI established for the MSA in which the tract is located. The four income levels are defined as follows:

Low-Income: Less than 50 percent of MFI

Moderate-Income: At least 50 percent but less than 80 percent of MFI

Middle-Income: At Least 80 percent but less than 120 percent of MFI

Upper-Income: 120 percent or greater of MFI

Based on 2010 U.S. Census data, the assessment area includes 8 low-income tracts, 43 moderate-income tracts, 89 middle-income tracts, 59 upper-income tracts. The area’s low-income tracts are concentrated in Cambridge and Somerville.

Table 2 illustrates select assessment area demographic information.

Table 2 – Assessment Area Demographic Information					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	199	4.0	21.6	44.7	29.7
Population by Geography	928,427	3.2	19.3	48.2	29.4
Owner-Occupied Housing by Geography	225,003	1.4	12.5	50.9	35.2
Businesses by Geography (2012)	98,738	3.3	15.3	47.2	34.2
Businesses by Geography (2013)	91,090	3.3	15.1	47.2	34.4
Distribution of Families by Income Level	224,072	19.8	16.3	22.2	41.7
Median Family Income (MFI)		\$105,935	Median Housing Value		\$492,800
2012 FFIEC-Estimated MFI for MD #15764		\$102,885			
2013 FFIEC Estimated MFI for MD #15764		\$106,400			
Families Below Poverty Level		4.4%	Unemployment Rate		6.0 %

Source: 2010 U.S. Census, 2012 and 2013 D&B data, 2012 and 2013 FFIEC-Estimated Median Family Incomes

Median Family Income Levels

The analysis under the *Borrower Characteristics* section of the Lending Test is primarily based on the distribution of home mortgage loans to borrowers of different incomes, using the same four income levels defined in the previous section. The analysis utilizes income data from the 2010 U.S. Census that has been annually adjusted by the Federal Financial Institutions Examination Council (FFIEC) for inflation and other economic events. The estimated 2012 and 2013 MFI figures for the Cambridge-Newton-Framingham, MA Metropolitan Division (MD) are listed in Table 2.

The analysis of the Bank's home mortgage lending also includes comparisons to the distribution of assessment area families by income level. Table 2 reveals that there is a much higher representation of upper-income families compared to other income categories. Moderate-income families have the smallest representation at 16.3 percent.

Housing Characteristics

Among other statistics, Table 2 also illustrates the distribution of owner-occupied housing units by census tract income level. The table shows that owner-occupied housing units in the assessment area are heavily concentrated in middle-income and upper-income census tracts. Only 13.9 percent of total owner-occupied units are in the low- or moderate-income tracts, which limits opportunities to make home mortgage loans in these geographies.

Unemployment Data

State and county unemployment rates were obtained from the Bureau of Labor Statistics. As of December 2013, the Massachusetts state unemployment rate was 7.0 percent. The Middlesex County unemployment rate was 5.2 percent.

Municipal unemployment rates were obtained from the Massachusetts Executive Office of Labor and Workforce Development. As of December 2013, the unemployment rates in the towns and cities in the Bank's assessment area ranged from a low of 4.2 percent in Weston to a high of 6.1

percent in Billerica. Overall, the assessment area had an average unemployment rate of 5.1 percent as of December 2013.

Business Demographic Data

According to 2013 Dun & Bradstreet (D&B) data, the assessment area contained 91,090 non-farm businesses, representing 98.6 percent of total area businesses. A majority of non-farm businesses (71.1 percent) have gross annual revenues (GARs) of \$1 million or less; 22.9 percent did not report GAR information. Of the total non-farm businesses, only 18.4 percent were located in low- or moderate-income tracts. The largest percentage of businesses are engaged in the services and retail trade industries. In terms of employees, 64.1 percent of the area's businesses employ four or fewer people.

Competition

The Bank faces strong competition from other financial institutions that originated or purchased residential loans in the assessment area. These institutions range in size and type from small credit unions and mortgage companies to large national banks. Among the more prominent lenders competing with Northern Bank & Trust Company are Wells Fargo Bank, N.A.; JPMorgan Chase Bank, N.A.; and Mortgage Master, Inc. The 2012 peer mortgage data shows 473 lenders originated 74,182 residential mortgage loans in the Bank's assessment area. The Bank ranked 62nd of the 473 lenders, which represented a 0.3 percent market share.

Competition for small business loans in the assessment area is also significant. Of 98 lenders that originated or purchased at least one small business loan in the assessment area in 2012, the Bank ranked 21st, with a market share of 0.6 percent by number of loans. In terms of market share by dollar volume, the Bank held a 3.3 percent market share, due to the larger dollar average of the Bank's loans compared to institutions with higher ranking by number. The five institutions that claimed the largest market share in 2012 were much larger institutions that offer small business credit cards, with average amounts between \$6,000 and \$10,000. These lenders accounted for nearly two-thirds of the market by number, but only 15.0 percent by dollar.

Community Contact

As part of the evaluation process, third parties active in community affairs are contacted to assist in assessing the housing and general banking needs of the community. Relevant information obtained from such sources helps to determine whether local financial institutions are responsive to the credit and service needs of their communities and what further opportunities, if any, are available. For purposes of this evaluation, information provided by one such contact was referenced in preparing this evaluation.

A community contact was conducted with a nonprofit organization that offers affordable childcare, emergency food assistance, and family skill building and support services to low- and moderate-income families. The contact stated that the community needs to invest more in affordable housing. Housing prices in the area are quite high, and low- to moderate-income families often have difficulty keeping up with the mortgage or rent payments, even those who work full-time.

Furthermore, the contact indicated that public transportation is limited in the Woburn area, and many low- and moderate-income individuals need cars to reach their place of employment. However, these individuals often pay very high interest rates on used car loans. The contact emphasized the positive impact specialized credit products would have in allowing low-income individuals to afford used cars to travel to their places of employment. Overall, the contact was pleased with local financial institutions' responsiveness to the area's credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The Lending Test considers the institution's performance pursuant to the following criteria: Loan-to-Deposit (LTD) Ratio, Assessment Area Concentration, Geographic Distribution, Borrower Characteristics, and Response to CRA Complaints. Overall, the Bank's performance under the Lending Test is "Satisfactory," which indicates that the Bank demonstrates reasonable responsiveness to the credit needs of the assessment area.

Loan-to-Deposit Ratio

This criterion evaluates the percentage of the Bank's deposit base that is reinvested in the form of loans. The Bank's LTD ratio is more than reasonable, given the institution's size and financial condition. Furthermore, the Bank sells a majority of their home mortgage loans on the secondary market, which are not captured in this calculation.

The Bank's average net LTD ratio over the 13 quarters since the previous CRA evaluation was 107.8 percent. The Bank's net LTD ratio as of September 30, 2013 was 106.4 percent.

Growth patterns of loans and deposits were also analyzed to assess changes in the net LTD ratio over the course of the review period. Net loans (total loans net of unearned income and allowance for loan losses) generally increased during the review period. Net loans increased by 41.9 percent over the last 13 quarters, and total deposits increased by 43.0 percent.

The Bank's average net LTD ratio was compared to the average net LTD ratios of four locally based, similarly situated institutions, utilizing the period of September 30, 2010 through September 30, 2013. Each institution had similar loan product distribution, and had total assets between \$900 million and \$1.9 billion as of September 30, 2013. The Bank had the highest average net LTD ratio when compared to the other institutions.

Table 3 – Loan-to-Deposit Comparison		
Bank Name	Total Assets \$(000) as of 09/30/2013	Average Net LTD Ratio 9/30/2010 – 9/30/2013
Northern Bank & Trust Company	1,031,053	107.8
Belmont Savings Bank	1,022,658	102.3
Avidia Bank	1,133,114	92.7
Enterprise Bank and Trust	1,831,728	89.1
The Lowell Five Cent Savings Bank	922,527	69.9

Source: September 30, 2010-September 30, 2013 Call Reports

Assessment Area Concentration

This performance criterion evaluates whether the Bank is meeting the credit needs within its assessment area by determining the amount of lending conducted within the assessment area. The analysis includes both residential and small business lending. Table 4 illustrates the Bank's record of originating loans inside and outside the assessment area during the evaluation period.

Table 4 – Distribution of Loans Inside and Outside of Assessment Area										
Loan Category or Type	Number of Loans					Dollar Volume				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$ ('000s)	%	\$ ('000s)	%	\$ ('000s)
Home Mortgage										
2012										
Home Purchase	66	41.8	92	58.2	158	21,545	40.2	32,024	59.8	53,569
Refinance	147	46.7	168	53.3	315	44,756	42.6	60,405	57.4	105,161
Home Improvement	11	68.8	5	31.3	16	2,785	28.2	7,101	71.8	9,886
Total	224	45.8	265	54.2	489	69,086	41.0	99,530	59.0	168,616
1/01/2013-9/30/2013										
Home Purchase	70	48.6	74	51.4	144	26,444	51.9	24,487	48.1	50,931
Refinance	109	57.1	82	42.9	191	34,917	59.9	23,343	40.1	58,260
Home Improvement	5	38.5	8	61.5	13	1,074	27.9	2,775	72.1	3,849
Total	184	52.9	164	47.1	348	62,435	55.2	50,605	44.8	113,040
Total Home Mortgage	408	48.7	429	51.3	837	131,521	46.7	150,135	53.3	281,656
Small Business										
2012										
1/01/2013-9/30/2013	173	70.9	71	29.1	244	33,297	60.7	21,565	39.3	4,862
1/01/2013-9/30/2013	139	68.5	64	31.5	203	28,099	54.7	23,239	45.3	51,338
Total Small Business	312	69.8	135	30.2	447	61,396	57.8	44,804	42.2	106,200
Grand Total	720	56.1	564	43.9	1,284	192,917	49.7	194,939	50.3	387,856

Source: 2012 and 2013 HMDA LARs, and Bank Small Business Loan Records

Overall, a majority of the Bank's small business and residential loans, by number, were made inside the designated assessment area. As shown in Table 4, the Bank made 56.1 percent of its total loans, by number, and 49.7 percent, by dollar amount, inside the assessment area. The following sections detail the Bank's performance by loan type.

Small Business Lending

As shown in Table 4, Northern Bank & Trust Company originated 69.8 percent, of total small business loans inside the assessment area during the review period. The ratio of loans inside the assessment area was similar from 2012 to 2013.

Home Mortgage Lending

Table 4 shows that the Bank originated a majority of home mortgage loans outside its assessment area in 2012 (54.2 percent). The Bank's level of lending inside the assessment area increased during the first three quarters of 2013 to 52.9 percent. This trend during the evaluation period reflects positively on the Bank's performance under this criterion.

Geographic Distribution

The geographic distribution of small business and home mortgage loans reflects reasonable dispersion throughout the assessment area, particularly in low- and moderate-income census tracts. The following sections discuss the Bank's performance under this criterion by loan type.

Small Business Lending

The geographic distribution of the Bank's small business loans reflects reasonable dispersion throughout the assessment area. Table 5 illustrates the Bank's small business lending activity in 2012 and the first three quarters of 2013, aggregate data for 2012, and the composition of businesses by census tract income level for both years.

Table 5 – Distribution of Small Business Loans by Census Tract Income Level							
Census Tract Income Level	2012 % of Total Businesses	2012 Aggregate Lending Data (% of #)	2012 Bank		2013 % of Total Businesses	1/01/2013-9/30/2013 Bank	
			#	%		#	%
Low	3.3	3.6	4	2.3	3.3	5	3.6
Moderate	15.3	15.7	12	7.0	15.2	10	7.2
Middle	47.2	47.8	129	75.0	47.1	104	74.8
Upper	34.2	32.9	27	15.7	34.4	20	14.4
Total	100.0	100.0	172	100.0	100.0	139	100.0

Source: 2012 and 2013 D&B Business Data; 2012 and 2013 CRA Loan Registers; 2012 CRA Aggregate Data

The Bank's performance of lending in low-income tracts in 2012 was slightly below aggregate and demographic data. The level of lending in moderate-income tracts was also less than aggregate lending levels and the percentage of businesses in moderate-income geographies. The percentage of lending in low- and moderate-income tracts increased in the first three quarters of 2013 to 3.6 percent and 7.2 percent, respectively.

The review of market share data for 2012 revealed that 39 lenders made small business loans in the low-income census tracts, and 292 lenders made small business loans in the moderate-income census tracts. The Bank ranked 20th and 26th in the low- and moderate-income census tracts, respectively. Considering the recent expansion of the assessment area, which resulted in the addition of all eight low-income tracts and 41 of 43 moderate-income tracts, the Bank's geographic distribution of small business loans is reasonable.

Home Mortgage Lending

The distribution of the Bank's home mortgage loans reflects reasonable dispersion throughout the assessment area. Table 6 represents the Bank's home mortgage lending performance by number of loans in 2012 and the first three quarters of 2013, as well as aggregate lending data for 2012. Table 6 also includes the percentage of owner-occupied housing units for each tract income level for comparison purposes.

Table 6 – Distribution of Home Mortgage Loans by Census Tract Income Level						
Census Tract Income Level	% of Total Owner-Occupied Housing Units	2012 Aggregate Lending Data (% of #)	2012 Bank		1/01/2013-9/30/2013 Bank	
			#	%	#	%
Low	1.4	1.4	5	2.2	4	2.2
Moderate	12.5	11.1	21	9.4	21	11.4
Middle	50.9	48.3	142	63.4	108	58.7
Upper	35.2	39.2	56	25.0	51	27.7
Total	100.0	100.0	224	100.0	184	100.0

Source: 2010 U.S. Census Data; 2012 and 2013 HMDA Data

In 2012, the Bank exceeded aggregate performance in terms of lending in low-income census tracts, and was slightly below aggregate in lending in moderate-income tracts. Performance of lending in low-income tracts in the first three quarters of 2013 was consistent with 2012 levels. Furthermore, the Bank increased the percentage of loans in moderate-income tracts in 2013, through September 30, 2013.

Market share reports indicate a high level of competition for home mortgage loans in low-income tracts, as 132 lenders made 1,054 loans in these tracts in 2012. The Bank ranked 47th with a 0.5 percent market share in these tracts. In addition, market share reports also indicate a high level of competition in moderate-income tracts, with 292 lenders originating 8,262 loans in these tracts. The Bank ranked 68th with a 0.3 percent market share in the moderate-income census tracts.

Borrower Characteristics

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among businesses of different revenue sizes and borrowers of different income levels (including low- and moderate-income). The following sections discuss the Bank's performance by loan type.

Small Business Lending

The Bank demonstrated adequate penetration of small business loans to businesses of different sizes, particularly those with GARs of \$1 million or less. Table 7 illustrates the distribution of the Bank's small business loans by GAR level, and includes business demographic and 2012 aggregate data for comparison purposes.

Table 7 – Distribution of Small Business Loans by Gross Annual Revenues							
GARs \$(000)	2012 % of Total Businesses	2012 Aggregate Lending Data (% of #)	2012 Bank		2013 % of Total Businesses	1/01/2013-9/30/2013 Bank	
			#	%		#	%
≤ \$1,000	70.8	41.4	83	48.3	71.1	79	56.8
> \$1,000	5.6	58.6	89	51.7	6.0	59	42.5
Not Reported	23.6	0	0	0	22.9	1	0.7
Total	100.0	100.0	172	100.0	100.0	139	100.0

Source: 2012 and 2013 D&B Business Data; 2012 and 2013 CRA Loan Registers; 2012 CRA Aggregate Data

As shown in Table 7, the Bank originated 48.3 percent of its small business loans to businesses with GARs of \$1 million or less in 2012. This is less than the percentage of all businesses in that size category at 70.8 percent; however, the Bank exceeded aggregate data at 41.4 percent. Performance in 2013 also notes an increasing trend of lending to businesses with GARs of \$1 million or less. It is further noted that market share data indicates that the Bank ranked 14th in lending to businesses with GARs of \$1 million or less in 2012.

Home Mortgage Lending

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration of loans to borrowers of different income levels, particularly those of low- or moderate-income. Table 8 depicts the distribution of home mortgage loans by borrower income level in 2012 and the first three quarters of 2013. Also included is the distribution of families by income level and aggregate data for 2012.

Table 8 – Distribution of Home Mortgage Loans by Borrower Income Level						
Income Level	% of Total Families	2012 Aggregate Lending Data (% of #)	2012 Bank		1/01/2013-9/30/2013 Bank	
			#	%	#	%
Low	19.8	4.5	17	7.6	16	8.7
Moderate	16.3	16.1	42	18.8	38	20.7
Middle	22.2	26.6	59	26.3	52	28.2
Upper	41.7	40.6	95	42.4	67	36.4
NA	0.0	12.2	11	4.9	11	6.0
Total	100.0	100.0	224	100.0	184	100.0

Source: 2010 U.S. Census Data; 2012 and 2013 HMDA Data; 2012 Aggregate HMDA Data

The Bank's distribution of loans to low-income borrowers, at 7.6 percent, exceeded aggregate performance of 4.5 percent in 2012. Furthermore, the Bank made 18.8 percent of its home mortgage loans to moderate-income borrowers, which exceeded aggregate data at 16.1 percent and demographic data at 16.3 percent. The Bank demonstrated an increasing trend of lending to low- and moderate-income borrowers through the first three quarters of 2013.

Response to CRA Complaints

The Bank did not receive any CRA-related complaints during the evaluation period. It was noted that the Bank maintains adequate procedures to handle all incoming complaints, including those related to its CRA performance.

FAIR LENDING AND OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

COMMUNITY DEVELOPMENT TEST

Northern Bank & Trust Company's community development performance demonstrates adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services, considering the institution's capacity and the need and availability of such opportunities in the institution's assessment area.

Community Development Loans

A community development loan is defined as a loan that: (1) has community development as its primary purpose, (2) has not already been reported by the Bank for consideration under small business or home mortgage lending (unless it is a multifamily dwelling loan), and (3) benefits the Bank's assessment area or a broader statewide or regional area that includes the Bank's assessment area.

The Bank originated seven community development loans totaling approximately \$25.6 million since the previous evaluation, dated September 13, 2010. The Bank's community development loans represent 2.8 percent of the Bank's total loans and 2.5 percent of the Bank's total assets. This level of community development lending reflects an increase from \$16.4 million during the prior CRA evaluation period. Table 9 details the Bank's community development loans by year and community development category.

Table 9 - Community Development Loans												
Activity Year	Qualifying Category										Totals	
	Affordable Housing		Community Services*		Economic Development		Revitalization or Stabilization**		Neighborhood Stabilization Projects			
	#	\$(000)	#	\$(000)	#	\$(000)	#	\$(000)	#	\$(000)	#	\$(000)
9/13/2010- 12/31/2010	0	0	1	5,000	0	0	0	0	0	0	1	5,000
2011	2	1,135	1	500	0	0	0	0	0	0	3	1,635
2012	0	0	0	0	0	0	0	0	0	0	0	0
2013	0	0	1	2,200	0	0	2	16,800	0	0	3	19,000
Total	2	1,135	3	7,700	0	0	2	16,800	0	0	7	25,635

Source: Bank Records, *Targeted to Low- or Moderate- Income Individuals, **Of Low- or Moderate-Income, Disaster, Distressed, or Underserved Geographies

The following bullets provide a representative example of the Bank's community development loans originated during the evaluation period.

2010

- In November 2010, the Bank made a \$5.0 million loan to a non-profit organization in Melrose through a Massachusetts Development Agency Finance Bond. The organization provides services such as day care to low- and moderate-income families. Proceeds from the loan were used for the purchase of space it had leased for its Stoneham child-care center and for renovations to that facility and its Melrose child-care center.

2011

- The Bank made a loan of \$160,000 to a local housing authority in Billerica to purchase a property that will be used as Section 8 rental housing. The housing authority currently administers state and federal housing programs for 270 units of affordable housing.
- In May 2011, the Bank made a loan of \$6.5 million, as part of a larger participation loan, for constructing a mixed-use facility in Reading. The development includes 56 apartments totaling 59,480 square feet of housing, and 20,000 square feet of retail space. Of the 56 apartments, 11 units totaling 11,485 square feet are designated as affordable housing for low- or moderate-income individuals or families. As 15 percent of the square footage of the entire project is designated as affordable housing, the pro-rata portion of the loan qualified as community development is \$975,000.
- The Bank renewed a working capital line of credit to a non-profit agency in Woburn, and increased the amount from \$375,000 to \$500,000. The organization provides a wide range of services to low- and very low-income individuals with disabilities, including residential housing, employment, training, job placement, and scholastic support. The organization operates a number of group homes that adhere to the guidelines of Section 811 of the National Affordable Housing Act.

2013

- In May 2013, the Bank made a \$12.0 million loan for building office space in a vacant mill building located in Lawrence. This building is located in a low-income census-tract. The project has served to revitalize the downtown area of Lawrence, and to create a number of permanent jobs in the area. The Bank also made a \$4.8 million loan for the purchase of another nearby mill building, which also has a purpose of revitalizing the area and creating permanent jobs. The City of Lawrence has been designated by the Department of Housing and Urban Development as a *Renewal Community*.
- The Bank made a \$2.2 million loan to an organization in Woburn that provides services to low-income individuals with disabilities. The loan was made through participation in a Massachusetts Development Agency Finance Bond. The loan refinanced the agency's existing mortgages, was used for immediate capital improvements for one of its group homes, and for future improvements to its main office.

Qualified Investments

A qualified investment, for the purposes of this evaluation, is a lawful investment, deposit, membership share, or grant that has community development as its primary purpose. The evaluation considered (1) investment and grant activity, (2) the responsiveness to credit and community development needs, and (3) community development initiatives. The following describes the institution's qualified investments during this evaluation.

Qualified investments for the evaluation period total \$5.7 million. This total includes equity investments and qualified donations made during the evaluation period and those made previously, but held in the Bank's investment portfolio. The Bank's qualified community development investments are detailed below.

Qualified Equity Investments

Qualified equity investments, including investments made during the evaluation period, and the current book value of prior period investments, total \$5.7 million. The following is a summary of the Bank's qualified investments.

Federal National Mortgage Association (FNMA) Mortgage-Backed Securities

During the evaluation period, the Bank purchased three pools of FNMA mortgage-backed securities for \$3.2 million. The collateral for each MBS pool consists of loans to low- or moderate-income borrowers. In addition, the current book value of FNMA MBS investments made before the current evaluation period is \$1.4 million.

Access Capital Strategies Community Investment Fund, Inc. (ACSCIF)

The Bank continues to hold an investment in the ACSCIF. The ACSCIF is a SEC-regulated fund structured as a business development company. The primary purpose of the fund is to provide a secondary market and financing vehicle for community development loan originators. The fund invests in private placement debt securities specifically designated to support underlying community development activities targeted to serve low- and moderate-income individuals, including affordable housing, education, small business lending and other job creating investments within a target region specified by the investing institution. The current book value of this investment is \$1.1 million.

Qualified Donations

The Bank made donations to organizations that provide education, youth programs, affordable housing, health and human services, and support to businesses for growth and development. The Bank made \$97,623 in qualified donations between September 13, 2010 and January 10, 2014. Table 10 illustrates the Bank's donations by year and community development purpose.

Table 10 - Community Development Donations						
Activity Year	Qualifying Category				Totals	
	Affordable Housing		Community Services*			
	#	\$	#	\$	#	\$
9/13/2010- 12/31-2010	0	0	3	1,475	3	1,475
2011	0	0	16	8,810	16	8,810
2012	1	1,000	24	30,299	25	31,299
2013	2	6,000	19	50,039	21	56,039
Total	3	7,000	62	90,623	65	97,623

Source: Bank Records

*Targeted to Low- or Moderate-Income Individuals

** In Low- or Moderate-Income, Disaster, Distressed, or Underserved Geographies

Woburn Council of Social Concern (WCSC) - WCSC is a private non-profit organization that offers affordable center-based and family childcare, resource and referral information, supplemental and emergency food assistance, as well as family skill building and support. The organization provides services primarily to low- and moderate-income individuals and families.

Budget Buddies - Budget Buddies is a non-profit organization that focuses on improving the financial literacy of low-income women in located in Chelmsford. This organization offers budgeting, banking and credit workshops with one-on-one coaching and support groups to help its clients resolve their financial issues.

Mission of Deeds - The Mission of Deeds is a non-profit organization that purchases beds, furniture, and other household items and distributes them to families and individuals in need, who reside in Middlesex and Essex counties.

Habitat for Humanity - Habitat for Humanity is a non-profit organization working to alleviate the shortage of housing for low- and moderate-income families and to provide decent, safe, and affordable housing for people in need. Relying on donated supplies and volunteered labor, Habitat for Humanity sells homes at cost, and zero interest loans.

YMCA - The YMCA is a community-based group that creates unique programs that serve low- and moderate-income populations. These programs include childcare, supplemental food assistance, and employment/vocational training services. The Bank made donations to the Melrose YMCA and the North Suburban YMCA.

Boys and Girls Club - The mission of the Boys and Girls Club is to give direction and guidance to economically disadvantaged young people. The organization provides them with a safe haven from the streets and opportunities for educational, physical, social, and moral development. The Bank granted donations to the Boys & Girls Clubs of Billerica and Woburn.

Community Development Services

A community development service has community development as its primary purpose and is generally related to the provision of financial services. Throughout the evaluation period, Bank employees, officers and Directors have provided financial services to organizations that have a community development purpose, including serving on various Boards and committees. In addition, the Bank participated in various financial education seminars and events. The following sections outline the Bank's community development services during the evaluation period.

Bank Employee and Director Involvement

During the evaluation period, Directors, officers and employees of the Bank provided community development services to local organizations. Bank personnel provided these organizations with financial expertise and served as directors, officers, and volunteers.

The following are examples of the Bank's participation with various organizations that benefited the assessment area.

Woburn Redevelopment Authority - The Woburn Redevelopment Authority is an independent municipal urban renewal authority, which has functioned as the city's community development agency since 2000. The Bank's Executive Vice President is the Chairman of this organization. An Assistant Vice President also serves as the Vice Chairman of the organization.

Bay Colony Development Corporation - This Corporation is a Certified Development Company (CDC), which has a purpose of stimulating economic development through the creation and preservation of jobs. The corporation provides fixed asset financing at affordable rates and reasonable terms. Bay Colony offers loan programs through the Small Business Administration, including the 504 and 7(a) programs. The Bank's Executive Vice President serves on the Board of this organization.

Woburn Council of Social Concern - This community-based agency offers a number of services to low- and moderate-income residents of Woburn, Winchester, and other towns within Middlesex County. This agency provides support to individuals, children and families through programs that offer quality early childhood education and care, parent education classes, and information and referrals to area residents. In 2012, the agency provided over 2,000 individuals with food assistance through its food pantry. The Executive Vice President of the Bank is on the Board of Directors and the Finance Committee of this organization. A Bank Vice President also serves on the Board of Directors.

Acton Food Pantry - This organization provides food to low-income residents of Acton and surrounding towns. Each week, the pantry distributes food to nearly 600 people. It also offers clothing to individuals and families in need. An Assistant Vice President serves as Treasurer for this organization.

EMARC - The mission of this organization, located in Wakefield, is to support, serve, and advocate for people with developmental disabilities to ensure they are valued, respected, and have the opportunity to fully participate in their communities. Founded in 1954, this organization serves approximately 1,000 families in Middlesex and Essex Counties on an annual basis. Services

provided by this organization include residential supports, job training and placement, family support groups, and a food pantry for low- income individuals. An Assistant Vice President of the Bank serves on the Board.

Financial Outreach and Education

Throughout the evaluation period, Bank personnel and management participated in various education and outreach events that had community development as their primary purpose. The following bullets illustrate examples of these community development activities.

- In 2011, the Bank participated in a first-time homebuyer workshop hosted by the Merrimack Valley Housing Partnership (MVHP), which guided attendees through the basics of obtaining a mortgage. The Bank also hosted two first-time homebuyer seminars in 2013. One was held at its Main Office in Woburn, and the other at its Chelmsford branch. Topics included budgeting and credit, the application process, finding the right house, and home inspections and appraisals.
- In May 2013, the Bank hosted a “*Skills to Achieve*” workshop with Junior Achievement for 23 high school students from Shawsheen Technical High School in Billerica. A number of Bank employees volunteered their time and financial expertise to host this event. Students received a lesson that reviewed 16 skills needed to enter the workforce, learned about the importance of credit, and participated in mock job interviews. Students also had an opportunity to learn the history of the Bank, and took a tour of the branch and operations area.
- The Bank participates in the “*Savings Makes Cents*” school banking program sponsored by the Office of the State Treasurer. Students at the Wyman Elementary School in Burlington participated in the program that teaches basic monetary concepts ranging from the origins of money to opening and building a savings account.

Other Community Development Services

Northern Bank & Trust Company is part of the Massachusetts Community and Banking Council’s Basic Banking for Massachusetts Program. The program was started in 1994 as a voluntary program to expand access to Bank products and services and to encourage those with modest incomes to establish banking relationships. The Bank offers checking accounts that meet the Basic Banking for Massachusetts guidelines.

The Bank also maintains *Interest on Lawyer’s Trust Accounts* (IOLTAs). Under an agreement with the Massachusetts Bar Association, interest paid on these accounts is used to provide legal assistance to indigent, low-, and moderate-income individuals. IOLTA-funded programs of Massachusetts provide legal assistance to over 100,000 individuals across the state. IOLTA continues to be the primary source for consumer, family, education, disability, and elder law services for low-income clients.

APPENDIX A

Massachusetts Division of Banks Fair Lending Policies and Procedures Review

The Division of Banks provides comments regarding the institution's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-106.

The Bank's Loan Policy addresses its efforts to prevent discrimination. The Bank provides fair lending training to all lending personnel and the Board at least annually.

Based on the review of the Bank's public comment file and its performance relative to fair lending policies and practices, no violations of the anti-discrimination laws and regulations were identified.

MINORITY APPLICATION FLOW

During 2012 and the first three quarters of 2013, the Bank received 525 HMDA-reportable loan applications from within its assessment area. The Bank's level of lending was compared with aggregate lending performance for 2012, which is the most recent year for which data was available. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants.

In 2012, the Bank received 27 applications from minorities. Of these applications, 21 or 77.8 percent resulted in origination. Aggregate lenders originated 80.0 of applications received from minority applicants in 2012. During the same time period, the Bank also received three applications from ethnic groups of Hispanic origin within its assessment area, all of which resulted in originations. Aggregate lenders originated 72.2 percent of applicants received from ethnic groups of Hispanic origin.

Table A1 – Minority Application Flow					
RACE	Bank 2012		2012 Aggregate Data	Bank 2013	
	#	%	%	#	%
American Indian/ Alaska Native	0	0.0	0.1	0	0.0
Asian	17	5.8	9.2	12	5.2
Black/ African American	1	0.3	0.9	1	0.4
Hawaiian/Pac Isl.	0	0.0	0.1	0	0.0
2 or more Minority	0	0.0	0.0	1	0.4
Joint Race (White/Minority)	9	3.1	1.6	3	1.3
Total Minority	27	9.2	11.9	17	7.3
White	215	73.6	63.3	188	80.7
Race Not Available	50	17.1	24.8	28	12.0
Total	292	100.0	100.0	233	100.0
ETHNICITY					
Hispanic or Latino	1	0.3	1.1	2	0.9
Not Hispanic or Latino	236	80.8	73.1	201	86.3
Joint (Hisp/Lat /Not Hisp/Lat)	2	0.7	0.8	1	0.4
Ethnicity Not Available	53	18.2	25.0	29	12.4
Total	292	100.0	100.0	233	100.0

Source: 2012 and 2013 HMDA LAR, 2012 HMDA Aggregate Data

In 2012, the Bank received 9.2 percent of its applications from minorities, while the aggregate was higher at 11.9 percent. In 2013, the Bank's performance decreased slightly to 7.3 percent.

The Bank's performance was slightly lower than the 2012 aggregate performance for ethnic minorities. In 2012, the Bank received 1.0 percent while the aggregate received 1.9 percent for ethnic minorities. The Bank's performance remained similar in 2013. Refer to the table below for information on the Bank's minority application flow as well as the aggregate lenders in the Bank's assessment area.

The Bank's minority application flow, when compared to the aggregate's performance levels is reasonable.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation, at 275 Mishawum Road Woburn, MA 01801.

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.